

K-12 EDUCATION

6110 Department of Education

California's public education system is administered at the state level by the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education, and is responsible for the education of approximately 6.3 million students enrolled in kindergarten through 12th grade. The primary goal of the Superintendent and the CDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance.

At the local level, K-12 education is the responsibility of 1,001 school districts, 58 county offices of education, and approximately 9,221 schools. More than 306,000 teachers are employed in public schools statewide.

Total K-12 Funding (All Funds)

The 2005-06 Governor's budget proposes \$61.1 billion in total funding for K-12 education, which reflects an increase of \$1.8 billion (3.0 percent) above the proposed 2004-05 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, and federal) totals \$10,084 in 2005-06, an increase of \$220 above the \$9,864 per-pupil rate in 2004-05.

Table 1				
K-12 Summary, All Funds (dollars in thousands)	2004-05 Revised	2005-06 Proposed	\$ Change	% Change
General Fund*	\$34,436,600	\$35,884,400	\$1,447,800	4.2
Local Property Taxes	11,407,800	11,819,600	411,800	3.6
Lottery Fund	810,150	810,150	0	0.0
Other State Funds	110,200	105,200	-5,000	-4.5
Federal Funds	7,583,500	7,532,900	-50,600	-0.7
Local Debt Service	1,195,500	1,195,500	0	0.0
Local Miscellaneous	3,794,900	3,794,900	0	0.0
Total Funds	\$59,338,650	\$61,142,650	\$1,804,000	3.0
Per Pupil Funding	\$9,864	\$10,084	\$220	

* General Fund includes Proposition 98 and Non-98 Funds.

As indicated by Table 1, the \$61.1 billion for K-12 education includes \$35.9 billion (58.7 percent) from the state General Fund; \$15.6 billion (25.5 percent) in property taxes and other local revenues; \$7.6 billion (12.3 percent) in federal funds, \$810 million (1.3 percent) in state lottery funds and \$105 million (0.2 percent) in other state funding.

As proposed, the total General Fund (Prop 98 and Non-98) increases by \$1.4 billion (4.2 percent) and local property taxes increase by \$412 million (3.6 percent). The budget also reflects a decrease of \$50.6 million (0.7 percent) in federal funds, although this figure will be updated at May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill for federal fiscal year 2005.

Proposition 98

Total Proposition 98 funding for K-14 education in 2005-06 is proposed at \$50.0 billion, an increase of \$2.9 billion (6.1 percent) over the revised 2004-05 budget. According to the Administration, the \$50.0 billion meets the Proposition 98 minimum funding guarantee in 2005-06. In meeting the minimum guarantee, the Administration uses *Test 2* factors applied to the 2004-05 funding base, as currently budgeted.

The \$2.9 billion increase in Proposition 98 funding in 2005-06 is covered primarily by an increase in state General Funds. As indicated in Table 2, Proposition 98 General Fund revenues increase by \$2.4 billion (7.1 percent) and local property taxes grow by \$475.9 million (3.7 percent).

Table 2
K-14 Proposition 98

Summary (dollars in thousands)	2003-04	2004-05	2005-06 Proposed	\$ Change	% Change
<i>Distribution of Prop 98 Funds</i>					
K-12 Education	\$41,800,043	\$42,178,345	\$44,705,043	2,526,698	6.0
Community Colleges	4,370,516	4,803,936	5,162,922	358,986	7.5
State Special Schools	40,302	41,504	41,708	204	.5
Dept. of Youth Authority	36,781	35,859	34,510	-1,349	-3.8
Dept. of Developmental Services	10,863	10,672	10,349	-323	-3.0
Dept. of Mental Health	13,400	8,400	8,400	0	-
Am. Indian Education Centers	3,778	4,476	4,688	212	4.7
Total	\$46,275,683	\$47,083,192	\$49,967,620	\$2,884,428	6.1
<i>Prop 98 Fund Source</i>					
State General Fund	\$30,521,723	\$34,123,805	\$36,532,334	2,408,529	7.1
Local Property Taxes	\$15,753,960	\$12,959,387	\$13,435,286	475,899	3.7
Total	\$46,275,683	\$47,083,192	\$49,967,620	\$2,884,428	6.1
K-12 Enrollment-ADA*	5,958,000	6,015,984	6,063,491	47,507	.8
K-12 Funding per ADA*	\$7,017	\$7,012	\$7,374	\$362	5.2

* Average Daily Attendance

As indicated in Table 2, of the total \$50.0 billion in Proposition 98 spending proposed for the 2005-06 budget, \$44.7 billion is appropriated for K-12 schools and \$5.2 billion is for Community Colleges. The K-12 share of Proposition 98 funding increases by \$2.5 billion (6.0 percent) and the Community Colleges share increases by \$359.0 million (7.5) percent.

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 47,000 in the budget year, an increase of 0.8 percent over the revised current-year level. Average per-pupil Proposition 98 funding is estimated to be \$7,374 in 2005-06, an increase of \$362 (5.2 percent) over the \$7,012 per pupil funding in 2004-05.

Major Adjustments for 2004-05

- **Apportionment Adjustments.** The Governor accounts for an increase of \$122.6 million in General Fund revenue limit apportionments to reflect a number of different factors. Specifically, the budget provides \$114.3 million for higher than estimated student enrollments and \$29.5 million to compensate for a loss in estimated property tax revenues. In addition, the budget recognizes \$24.5 million in savings from a reduction in unemployment insurance costs.

Major Adjustments for 2005-06

- **Overall Increase.** The Governor proposes a total of \$44.7 billion in Proposition 98 funding for K-12 schools in 2005-06, an increase of \$2.5 billion (6.0 percent) above the 2004-05 budget. As proposed, the budget provides \$7,374 per-pupil in Proposition 98 funding in 2005-06, an increase of \$362 (5.2 percent) per-pupil above the 2004-05 budget.
- **Growth Funding.** The budget provides \$394.7 million to fully fund statutory enrollment growth for apportionments and categorical programs. The budget provides \$245.9 million for revenue limit apportionment growth; \$31.4 million for special education; \$29.7 million for child care development; and \$87.7 million for various other categorical programs. The budget estimates K-12 ADA growth of 0.8 percent.
- **Cost-of-Living Adjustments (COLAs).** The budget provides \$1.6 billion to fully fund statutory COLAs for K-12 revenue limit and categorical programs. This provides a 3.93 percent COLA for revenue limits (\$1,222.1 million); special education (\$156.6 million); child care and development (\$50.8 million); and various other categorical programs (\$220.4 million) that require a COLA pursuant to state statute.
- **Deficit Factor Payment.** The Governor's Budget proposes an additional \$328 million to pay down the revenue limit deficit factor to compensate for revenue limit reductions (overall reduction of 1.2 percent and foregone COLA of 1.8 percent) that originated in the 2003-04 budget. The 2004-05 budget appropriated \$270 million as partial payment of the deficit factor obligation. This proposal provides another \$328 million, which would bring the overall deficit factor to 1.132 percent for school districts and 1.126 percent for county offices of education.
- **Proposition 98 Reversion Funds.** The Governor proposes appropriating \$138.6 million in one-time funds in 2005-06 from the Proposition 98 Reversion Account for a variety of programs, including: \$100 million for school facility emergency repairs pursuant to the

Williams settlement agreement; \$20 million to develop career technical education curricula within the community colleges; \$10 million for CalWorks child care base adjustments; \$4.9 million to fund court-ordered desegregation payments in Sunnyvale; \$2.3 million for a deficiency in the California Standardized Testing and Reporting (STAR) program; \$1.1 million in new training for school district chief business officers; and \$354,000 to fund prior year shortfalls in the school meals program.

Major Issues – Special Session

The Governor proposes four budget and policy measures in Special Session that have a significant affect on K-12 education. Each of these measures is being proposed by the Governor as a constitutional amendment. If passed by the Legislature, these measures would have to be approved by statewide voters prior to enactment. These measures, as currently proposed by the Governor, are identified below and the major provisions that affect schools are summarized.

Statewide Budget Reforms. The Governor's proposal makes significant, comprehensive changes to the state's budget process that include substantial changes to Proposition 98; across-the-board reductions to all state funded programs including education; and payment for unfunded education and noneducation mandates within 15 years. While the full effects of the individual provisions (summarized below) and how they interact together are not fully understood at this time, the proposals will clearly have a substantial effect on short- and long-term funding for K-12 schools.

Proposition 98: Provisions make the following major changes to Proposition 98:

- Eliminates the Test 3 calculation and payment of maintenance factor in the fiscal year following the effective date of the measure (intended as 2006-07);
- Requires payments of outstanding maintenance factor (estimated at \$3.7 billion at the end of 2005-06) by July 1, 2021;
- Excludes payments for outstanding maintenance factor from inclusion in the Proposition 98 base;
- Eliminates the authority to suspend Proposition 98 beginning in 2006-07;
- Requires calculation of Proposition 98 settle-up funds for 2005-06 and beyond within 24 months and provides settle-up payment via continuous appropriations;
- Deems settle-up obligations (estimated at over \$1.3 billion) to be one-time obligations paid off within 15 years of the effective date of this measure; and
- Excludes payments in excess of the Proposition 98 minimum guarantee under Test 2 from being included in Proposition 98 base, unless specified by another appropriations statute.

Across-the-Board Reductions: Provisions require all state General Fund appropriations – including education – be reduced on a pro-rata basis when the Governor has declared a fiscal emergency and the Legislature has not passed legislation to address the fiscal emergency within 45 days, or 30 days if a continuous appropriations bill has been passed in lieu of a budget bill. The Director of Finance would determine the pro-rata reduction rate in order to bring General Fund appropriations in-line with General Fund revenues. Pro-rata reductions would not apply to certain types of payments including contracts, collective bargaining agreements, bonded indebtedness or payments required by federal law. The reductions would continue through the period specified or the fiscal year when the fiscal emergency is deemed ended.

Mandate Claims. Provisions require payment of all outstanding education mandate claims for school districts and community colleges that were incurred prior to 2004-05 and have not been paid prior to the 2005-06 year to be paid no later than 2020-21.

Statewide Pension Reforms (ACA 1X/Richman). Provisions would require public agencies, including school districts, to enroll employees hired after July 1, 2007, in a defined contribution pension plan, and prohibit enrollment in a defined benefit plan. The measure allows public agencies to offer employees who are enrolled in a defined benefit pension plan the option of transferring the member's interest in the plan to a defined contribution plan.

Merit Pay for Teachers & Administrators (SCA 1X/Runner). Requires Local Education Agencies (LEAs) and charter schools to base employment decisions solely on employee performance, as assessed annually, and on the needs of the school district and its pupils. The measure prohibits consideration of employee seniority in making employment decisions. Teacher and administrator performance would be locally determined based upon individual performance evaluations and improvement in student performance, as measured on state standardized tests.

School Budget Accountability (ACA 2X/Daucher). Provisions require a school district to develop an annual report for each school in the district that provides the following information: revenues by source; expenditures by line-item; salaries and benefits for employees by classification; description of all service and supply contracts and the amount expended; outstanding obligations; and reserve balances.

Major Issues – Regular Session

Proposition 98 – Current Year Funding. The Governor proposes to maintain Proposition 98 funding for K-14 education (K-12 schools and community colleges) at the level appropriated by the 2004-05 Budget Act. The 2004-05 budget appropriated \$47 billion for K-14 education, which was approximately \$2.0 billion below the minimum guarantee at the time of enactment. Due to larger than estimated state revenues and student enrollments, the minimum guarantee has grown an additional \$1.1 billion since then. The Governor does not propose to fund this overall increase, estimated to save \$2.3 billion over two years.

Proposition 98 – Budget Year Funding. The Governor proposes \$50.0 billion for K-14 education in 2005-06, an increase of \$2.9 billion (6.1 percent) over 2004-05. As proposed, the Governor's budget meets the Proposition 98 minimum funding guarantee in 2005-06. The

Governor calculates the minimum guarantee for the 2005-06 budget using *Test 2* factors applied to the 2004-05 base, as currently budgeted. The Governor's Budget does not propose suspension of Proposition 98 in 2005-06.

Reductions to State Contributions to CalSTRS. The Governor proposes to reduce state general funds (Non-98) for the California State Teacher's Retirement System (CalSTRS) by \$469 million in 2005-06 to eliminate the state contribution for the CalSTRS Defined Benefit Program. Under this scheme, it is assumed that LEAs would have to fund continuation of these benefits. The budget does not provide funding for these costs, so presumably LEAs would have to provide funding from other appropriations in 2005-06. This would have the effect of reducing the overall Proposition 98 funding increase for K-12 schools from 6.0 percent to 4.8 percent in 2005-06.

Statutory Growth and COLA's Fully Funded. The Governor proposes expenditures of \$2.0 billion to fully fund statutory growth and COLA's (cost-of-living adjustments) for K-12 revenue limit and categorical programs in 2005-06. Of this amount, the Governor proposes \$395 million for enrollment growth, estimated to increase by 0.8 percent in 2005-06. In addition, the Governor proposes \$1.65 billion for education program COLA's, estimated at 3.93 percent in 2005-06. These funds are considered "unrestricted funds" and can be used by LEAs for general purposes.

State Mandate Reimbursements. The budget proposes to defer or suspend all funding for education mandates in 2005-06. This is consistent with budget actions in recent years. According to the Legislative Analyst, mandated costs for K-12 schools are estimated at more than \$300 million a year and cumulative, unpaid mandated costs claims are now estimated at \$1.4 billion. By the end of 2005-06, the state will owe approximately \$1.7 billion in education mandate costs. By deferring reimbursement of mandate claims, the state is not eliminating its obligations. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account. Under the Governor's overall budget reforms the state would be required to pay schools for all unfunded mandates within 15 years .

Williams Settlement: The Governor proposes \$100 million for emergency repairs of school facilities pursuant to the *Williams v. California* lawsuit settlement. Chapter 899, Statutes of 2004 (SB 6), which implements provisions of the Williams settlement agreement, requires the state to appropriate at least \$100 million in Proposition 98 reversion funds annually for emergency facility needs. This level of funding must continue until the state has provided a total of \$800 million.

Special Education

- **Federal Funding** The Governor's budget appropriates an additional \$65.1 million in federal special education funds authorized under the federal Individuals with Disabilities Education Act (IDEA). The Governor proposes to direct \$24.8 million of these new funds to local education agencies (LEAs) in the form of AB 602 grant increases; approximately \$20 million for adjustments to the new formula for children and youth residing in licensed children's institutions; and approximately \$20 million for enrollment adjustments for preschool students. Under current state law, new federal special education funds are treated as an "offset" to state funding and not an augmentation that would increase special education base funding level. As recently reauthorized, the IDEA includes language that appears to prevent

states from using new federal funds to offset state-mandated funding obligations, specifically enrollment growth and COLAs.

- **Mental Health Services.** The Governor proposes no changes to state and federal funding for mental health related services in 2005-06. Specifically, the budget continues \$69 million in federal IDEA funds as reimbursement to county mental health agencies for AB 3632 services and continues \$31 million in ongoing General Funds to local education agencies for mental health related services. In a separate, but related proposal, the Governor proposes to suspend county (noneducation) mandates for providing AB 3632 services. Under the provisions of Proposition 1A, as enacted by statewide voters last November, suspension of noneducation mandates in the budget signals elimination of a mandate. Under this scenario, schools would assume full responsibility for the provision of mental health related services, as required under federal law.

New Policy Initiatives. The Governor's *Budget Summary* identifies several policy issues that have not been formally developed at this time but are likely to be proposed through budget trailer bills. These policy initiatives include:

- **Career and Technical Education.** The Governor proposes additional funding and a number of changes to K-12 and Community Colleges programs to ensure that all students have access to quality career technical education programs.
- **Fitness and Nutrition.** As part of the Governor's Obesity Initiative, the Administration seeks to improve the quality of food and beverages and to increase physical fitness opportunities and activities on school sites.
- **Accelerated English Language Acquisition Program.** The Administration proposes a new program to provide targeted reading instruction to English learners in 4th through 8th grades.
- **Alternatives for Failing Schools.** The Administration proposes that the State Board of Education take action in failing schools to either convert them to charter schools or assign School Recovery Teams to manage schools. The administration proposes a number of new programs to build capacity in these areas.
- **Local Control School Pilot Program.** The Governor proposes to establish a new pilot program to increase student achievement by delegating budget authority and academic decision making to the school site level.
- **School Size Reduction.** The Governor proposes to create smaller learning environments within the state's elementary, middle, and high schools through changes to the school facility funding incentives and the allocation of new technical assistance and planning resources.
- **Improving Fiscal Health.** The Administration proposes new training programs to improve the skills of school district business officers.

- **Categorical Program Reforms.**

- The Governor proposes providing additional flexibility for categorical programs included in the Professional Development Block Grant which was established by the AB 825 reforms enacted last year.
- The Governor also proposes changes to simplify and clarify funding calculations under the Charter Schools Categorical Block Grant.

Child Care Programs

Background. The state makes subsidized child care services available to (1) families on public assistance and participating in work or other activities conducive to employment, (2) families transitioning off public assistance programs, and (3) other families with exceptional financial need. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the family's progress in transitioning from welfare to work.

Child care services under Stage 1 are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education. Families receiving Stage 2 child care services have been deemed "stable" and are either receiving cash assistance or are in a two-year transitional period after leaving cash aid.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two tiers: General Child Care (which is delivered predominately through child care vouchers and child care centers) and are available on a limited basis for families with exceptional financial need, while the Stage 3 Set-Aside makes child care slots available specifically for former CalWORKs recipients. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

2005-06 Child Care Policy Proposals. The proposed 2005-06 Budget contains a total of \$3.1 billion (both General Fund and federal funds) to provide child care services to CalWORKs recipients, former CalWORKs recipients, and the "working poor".

As part of his budget, the Governor proposes a variety of programmatic reforms to the state's subsidized child care programs. The proposals -- which will likely require statutory changes -- are aimed at saving the state General Fund monies, creating more "equity" between former CalWORKs recipients and the general public in obtaining child care services, and improving the quality of available childcare. Generally, the reforms will: (1) limit the amount of time CalWORKs families can receive an entitlement to child care; (2) decrease the reimbursement rates to providers; and (3) blur the lines between the services provided to former CalWORKs recipients and the general public. All together, the Administration expects its reform proposals to result in \$172.1 million in savings (from both federal and state funds).

Limiting Eligibility. The Governor proposes to limit program eligibility by capping the length of time CalWORKs families may receive an entitlement to subsidized child care. Specifically, the proposal would place limits on the length of time CalWORKs families would be allowed to remain in Stage 3 child care, thus forcing future CalWORKs recipients to apply for General Child care services as soon as they are eligible to do so. This proposal is identical to the time-limit proposal submitted by the Administration as part of the 2004-05 May Revision.

Beginning in 2005-06, families in Stage 1 or 2 CalWORKs child care would be allowed to finish out their two year limit in those programs. At the point when families have earned income, they would be allowed to put their names on a general Alternative Payment Provider (AP)/child care voucher program waiting list and access general child care services as space becomes available. If at the end of their Stage 2 time, a general child care slot has not become available, then the family is eligible to move to Stage 3 child care where they will face another 1- or 2-year maximum before their child care entitlement expires. Families “off” cash aid as of July 1, 2005 would be allowed 2 years in Stage 3 before losing services; families “on” cash aid as of July 1, 2005 would be allowed one year in Stage 3 before losing services. The intent of the Administration is that an AP voucher child care slot will come available within the three or four years a CalWORKs family would spend on the waiting list.

In order to ease the transition, CalWORKs families currently in Stage 3 would be shifted to the voucher program where they would remain as long as the family and child(ren) remain eligible (the child is under age 13 and family income is within eligibility thresholds.) The Governor’s proposal increases the amount of funding (and hence the number of child care “slots”) in the AP/voucher program by \$248.6 million to accommodate this influx of children. No immediate savings are expected as a result of this proposal.

Centralized Child Care Wait Lists. The Administration proposes to end the practice of having AP’s maintain multiple child care waiting lists per region. Instead, the Governor proposes to have only one centralized waiting list per county. Lists would be maintained on a county-by-county basis by the local county child care planning council, which would receive additional funding to develop and maintain the lists. Under the Governor’s proposal, the list would be divided into two sections: the first section would be for families whose income is below the level where fees/co-payments are charged; these families would receive care on a *first-come, first-served* basis. The second section would include families with slightly higher incomes (at or above the level where a fee/co-payment is required); these families would receive services based on income – with the lowest income families being served first (which is consistent with current practice).

11- and 12-Year Olds – Shift to Before/After School Programs. As part of the current year Budget Act, After School Programs are designated as the “preferred placement” (rather than traditional child care) for 11- and 12-year olds, and additional funding was provided in the 2004 Budget Act to expand the capacity of Before and After School Programs in order to accommodate more 11- and 12-year old students. Under the current practice, parents have the option of choosing Before/After School Programs as their primary source of child care, certify that Before/After School Programs meet their child care needs, and then actively remove their child from part or all of the subsidized child care program. Under the Governor’s proposal, the burden shifts. Instead, parents would now be required to certify that a Before/After School

Program either does not exist or does not meet their needs in order to continue receiving subsidized child care for their 11- or 12-year old. The Administration estimates that this requirement to “opt out” of Before/After School Programs (rather than “opt in”) will result in \$23.8 million of savings in 2005-06.

Reimbursement Rates. In order to further reduce budget-year costs and provide a monetary incentive to improve the quality of child care, the Governor is proposing to reduce the reimbursement rates to licensed-exempt child care providers, while concurrently adopting a “tiered” reimbursement mechanism (similar to a salary schedule) which would compensate exempt providers more if they acquire specified training or early childhood education coursework. This rate change is expected to result in \$140.1 million in savings in the 2005-06 fiscal year.

Under current law, licensed-exempt providers are paid 90 percent of the amount paid to family child care homes or center-based child care providers. Immediately upon enactment of the Budget, exempt providers would see their reimbursement rates fall to 60 percent of this rate. If, within 90 days, exempt providers demonstrate and/or certify that they’ve received the required training, then their reimbursement rate would stay at the reduced 60 percent level. If they fail to receive the required training within the 90 day window, their rates would be reduced to 55 percent of the Homes and Center-Based providers. At present, it is unclear how the rate adjustments would occur and whether or not contracts and/or agreements with local Alternative Payment Providers (APs) would need to be adjusted to accommodate the reduced rates.

The table below (information provided by the Department of Finance) illustrates the impact of the licensed-exempt rate proposal:

Sample Counties	Rate Structure (Full month care for 2-5 year old child.)			
	Current Maximum Rate for Licensed- Exempt Providers (90% of max. licensed provider rate)	Median Rate Charged by licensed providers	Maximum rate if exempt provider demonstrates training (60% of max. licensed provider rate)	Maximum rate if exempt provider does <u>not</u> demonstrate training (55% of max. licensed provider rate)
Sacramento	\$526.00	\$487.00	\$350.70	\$321.48
San Francisco	\$779.50	\$768.50	\$519.60	\$476.30
Los Angeles	\$584.50	\$541.50	\$389.70	\$357.23
Contra Costa	\$623.50	\$584.50	\$415.80	\$381.15
Fresno	\$487.50	\$433.00	\$324.90	\$297.83
Shasta	\$467.50	\$433.00	\$311.70	\$285.73

The Administration proposes imposing a similar rate-change structure for family child care home providers and center-based providers, but allows those providers two years to demonstrate

training and/or licensing requirements. Under the Governor's proposal, family child care and child care center providers would see their reimbursement rates fall to 75 percent of the Regional Market Rate (RMR) ceiling (set at the 85th percentile of the RMR) if they do not demonstrate specified training or certification requirements. The 2005-06 budget shows no savings affiliated with this portion of the proposal, as rates for these providers would not be reduced until July 1, 2007.

In/Out of Market Rates. Current law, which has been suspended in this year's budget, limits the maximum rate that can be paid to a provider to the rate paid by a private-pay/unsubsidized family in the same region for the same services. In cases where a provider serves only state-subsidized children, the maximum rate is based on a sampling of the private-pay rate in the region.

While the Legislature has opted to suspend implementation of this law in the past, primarily due to the fact that rates would decrease for many providers, the Administration is proposing to put the law into effect because it will save approximately \$8.2 million.

Use of Federal Poverty Level. Under current law, families are eligible for subsidized child care services if their income is at or below 75 percent of the State Median Income (SMI), as adjusted for family size. The Governor proposes the use of a new index – the Federal Poverty Level (FPL) – in place of the SMI beginning in 2005-06. The Administration sites the FPL as a more reliable index – it is updated annually by the federal government – and is the same index used to determine eligibility for other state and national health and human services programs. Based on the proposal, the shift to the FPL would be designed to ensure that no family currently eligible for services would lose eligibility. No monetary savings are associated with this proposal.

6120 California State Library

The Governor proposes to reduce funding for the Public Library Foundation (PLF) by \$2.2 million; the PLF provides grants to local libraries for such basic operating expenses as maintaining hours of operation, book and periodical purchases, and library database and computer access. In addition, the Governor proposes to cut operational expense for the State Library by \$170,000 (which equates to less than 1 percent of the Library's state operational budget).

Additional adjustments include: (1) a reduction of \$828,000 to Library Development Services, which provides programs and services to local libraries such as access to licensed databases, telecommunication links among libraries, and electronic loan of materials; (2) a reduction of \$276,000 to the English Acquisition Programs, which provides community-based English-literacy development programs for adults; and (3) an augmentation of \$329,000 to support the acquisition and implementation of an automated Braille and Talking Book Library.